

## **AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE JOHN TAOLO GAETSEWE DISTRICT MUNICIPALITY COUNCIL**

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Introduction**

I have audited the accompanying financial statements of the John Tao Lo Gaetsewe District Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages **xx** to **xx**.

#### **Accounting officer's responsibility for the financial statements**

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act 2003(Act No. 56 of 2003) (MFMA) and Division of Revenue Act 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditor-General's responsibility**

As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in *Government Gazette* 32758 of 27 November 2009. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

I was unable to obtain sufficient appropriate audit evidence to confirm the existence, rights and completeness of property, plant and equipment to the value of R108 257 004 as disclosed in the statement of financial position as a result of the following:

- The completeness of property, plant and equipment could not be confirmed as the asset register value of R110 468 096 did not agree with the financial statements. A reconciliation of the difference of R2 211 092 could not be obtained. Several physical assets could not be traced to the asset register.
- The existence of moveable assets could not be confirmed as a number of assets included on the asset register could not be traced to the physical assets.

The municipality's records did not permit the use of alternative procedures.

A recalculation of depreciation indicated that assets were understated and depreciation overstated by an amount of R2 848 397. This calculation was only based on assets purchased after 1 July 2007.

### **Trade and other payables**

The completeness of payables disclosed as R7 568 605 in note 6 to the financial statements could not be confirmed due to the lack of a system to account for payables. The municipality omitted disclosure of payables of at least R2 582 044, resulting in payables, expenditure (R2 264 951) and VAT (R317 093) being understated.

### **Taxes**

The completeness and existence of the pay-as-you-earn receivable balance amounting to R2 744 924 and included in note 8 to the financial statements could not be confirmed as sufficient appropriate audit evidence could not be obtained. Confirmation from the South African Revenue Service indicated that such a receivable did not exist.

### **Opinion**

In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the John Taolo Gaetsewe District Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

### **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Material inconsistencies in other information included in the annual report**

I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies in the financial statements.

### **Emphasis of matter**

I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Contingent liability**

With reference to note 51 to the financial statements, the municipality is the defendant in a claim against the council to the amount of R8 669 392. The municipality is opposing the claim. The outcome of the matter could not be determined at the date of this report.

### **Unauthorised expenditure**

As disclosed in note 43.1 to the financial statements, unauthorised expenditure to the amount of R5 105 636 was incurred due to the overspending of main divisions within the budget, namely R51 999 on executive and council, R2 259 358 on road transport and R2 794 279 on projects.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In terms of the PAA of South Africa and *General notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009* I include below my findings on the report on predetermined objectives, compliance with the MFMA, DoRA, Municipal Systems Act 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act 1998 (Act No. 117 of 1998) and financial management (internal control).

### **Predetermined objectives**

#### **Usefulness of reported performance information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

**Planned and reported performance targets not time bound**

For the selected programmes, 100% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

**Planned and reported indicators not well defined**

For the selected programmes, 35% of the planned and reported indicators were not clear, with an unambiguous definition to allow for data to be collected consistently.

**Inadequate presentation of reported information**

The reported performance information to be included in the annual report was not presented in a simple, accessible format, relevant and useful to the intended user, and in accordance with the requirements of MFMA circular 11 and the relevant guidance applicable to reporting for the financial year-end. The targets stated an exact number to be achieved, while the result column only indicated a yes or no without quantifying the result.

**Reliability of reported performance information**

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity, i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

**Reported targets not reliable, accurate and complete as no supporting source information was provided**

For the selected programmes the validity, accuracy and completeness of 42% of the reported targets could not be established as the relevant source documentation for the good governance and public participation programme could not be provided for audit purposes.

## **Compliance with laws and regulations**

### **Municipal Finance Management Act**

- Creditors were not always paid within 30 days from receipt of an invoice as required by section 65(2)(e).
- A statement of the municipality's budget was not submitted to the mayor within 10 days after the end of the month as required by section 71.
- Interest has not been charged on outstanding consumer debtor accounts as required by section 64(2)(g).
- The internal audit function did not perform as required by section 165(2)(b).
- The audit committee did not perform as required by section 166(2)(a)(v) and 166(2)(b).

### **Division of Revenue**

The Expanded Public Works Incentives Grant amounting to R2 334 000 receivable in terms of schedule 8 of the Act was withheld as the municipality did not comply with the requirements of section 23.

### **Supply Chain Management Regulations**

The municipality's list of prospective providers was not updated during the year under review as required by paragraph 14 of the regulations.

## **INTERNAL CONTROL**

I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives and compliance with the MFMA and DoRA, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the deficiencies identified during the audit.

### **Leadership**

The municipal manager position was vacant throughout the year and the chief financial officer acted as the municipal manager. This resulted in a lack of monitoring in the finance department. The municipal manager position was filled subsequent to year-end on 3 August 2010.

### **Financial management**

The municipality experienced problems with year-end processes, resulting in various adjustments to the financial statements during the audit. This also led to completeness problems on assets and payables. Some key reconciliations were not performed and this resulted in unexplained differences at year-end. The electronic asset management system incorrectly calculated depreciation and did not provide information in the format required for the financial statements.

### **Performance management**

The coordinator of the performance information did not demonstrate a clear understanding of the principles of performance information reporting and did not communicate clearly with the various departments to collate the information.

### **Governance**

#### **Internal audit**

The internal audit unit did not follow a risk-based approach in selecting components to be audited and did not use a systematic method to select samples. Performance information was not audited during the 2009-10 financial year. The head of the internal unit position was vacant during the year and was filled subsequent to year-end on 1 September 2010.

### **Audit committee**

The audit committee did function throughout the year, but did not fulfil all its responsibilities. The audit committee did not review the financial statements of the various municipalities in the district before it was submitted to the external auditors. The audit committee did not review the performance management systems and did not make recommendations to the councils in this regard.

*Auditor-General*

Kimberley

30 November 2010



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